

Message Text

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17

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-05 NSAE-00 RSC-01 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-01 SIL-01 OMB-01 NSC-05 SS-15 STR-01

CEA-01 PA-01 PRS-01 USIA-06 L-02 /073 W

----- 121731

R 261644Z NOV 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8667

INFO AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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GUATEMALA FOR ROCAP

E.O. 11652: N/A

TAGS: EIND, ETRD, CS

SUBJECT: CACM - NICARAGUAN AND SALVADORAN IMPORT MEASURES

SUMMARY. THE COSTA RICAN PRESS HAS GIVEN CONSIDERABLE ATTENTION TO MEASURES RECENTLY ANNOUNCED BY EL SALVADOR AND NICARAGUA WHICH WILL AFFECT THEIR IMPORTS FROM OTHER COMMON MARKET COUNTRIES. WHILE PRESS COVERAGE INDICATES THAT THESE MEASURES REPRESENT A GRAVE CRISIS IN THE MARKET, KNOWLEDGEABLE COSTA RICAN OFFICIALS SPEAK OF THEM PRIVATELY WITH LESS ALARM AND, WHILE CONCERNED, DO NOT SEE THEM AS A SERIOUS THREAT TO THE FUTURE OF THE CACM. NEVERTHELESS, THE GOVERNMENT IS SEEKING LEGISLATION THAT WOULD PERMIT RETALIATION. END SUMMARY.

1. REPORTS HERE INDICATE THAT NICARAGUA HAS ESTABLISHED A NEW IMPORT TAX WHICH AFFECTS GOODS IMPORTED FROM THE COMMON MARKET AND HAS ALSO RAISED ITS SALES AND ITS SELECTIVE CONSUMPTION

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TAXES. EL SALVADOR IS REPORTED TO HAVE LIFTED THE

IMPORT TAX ON CERTAIN UNSPECIFIED RAW MATERIALS USED BY NATIONAL INDUSTRIES. BOTH COUNTRIES' ACTIONS APPEAR TO VIOLATE THE TERMS OF AGREEMENTS ENTERED INTO AMONG THE FIVE COUNTRIES PARTICIPATING IN THE CENTRAL AMERICAN COMMON MARKET (CACM).

2. THE COSTA RICAN PRESS HAS REACTED STRONGLY TO THESE MEASURES, INDICATING THAT THEY REPRESENT A "GRAVE" CRISIS FOR THE CACM. PRESS REPORTS STATE THAT MINISTER OF ECONOMY, INDUSTRY AND COMMERCE SANCHEZ WILL TAKE RETALIATORY MEASURES WHEN THE CONGRESS APPROVES THE NECESSARY LEGISLATION, WHICH COULD BE AS EARLY AS NOVEMBER 28.

3. COSTA RICA'S ALTERNATE DELEGATE THE CACM'S HIGH LEVEL COMMITTEE, FERNANDO BERROCAL, INDICATED IN CONFIDENCE TO AN EMBOFF THAT NEITHER HIS OFFICE NOR MINISTER SANCHEZ'S IS AS WORRIED ABOUT THESE MEASURES AS PRESS REPORTS WOULD INDICATE. HE CONFIRMED THAT SANCHEZ MAY INSTITUTE RETALIATORY IMPORT MEASURES WHICH WOULD SEEK TO EQUALIZE THE EFFECT THAT THE NICARAGUAN AND SALVADORAN MEASURES WILL HAVE ON COSTA RICAN REGIONAL TRADE. HE STATED, HOWEVER, THAT THE MINISTER'S PROPOSED ACTION IS MOTIVATED PRINCIPALLY BY A DESIRE TO MAINTAIN THE APPEARANCES OF LEGALITY WITHIN THE MARKET. HE POINTED OUT THAT MARKET MECHANISMS DO NOT CURRENTLY PROVIDE FOR SANCTIONS AGAINST MEMBER STATES WHICH VIOLATE AGREEMENTS. HE MENTIONED AS BEING WORTH CONSIDERING A SCHEME WHICH GENERAL SOMOZA IS SAID TO HAVE SUGGESTED WHEREBY CACM MEMBERS WOULD DEPOSIT BONDS WHICH WOULD BE FORFEITED IF THEY VIOLATED THEIR OBLIGATIONS. BERROCAL SAID THAT THIS WOULD HAVE TO WAIT, HOWEVER, UNTIL THE QUESTION OF THE LEGAL STATUS OF THE CACM IS SETTLED. HE POINTED OUT THAT WHILE THE RECENT ACTIONS TAKEN BY NICARAGUA AND EL SALVADOR ARE TECHNICALLY IN VIOLATION OF CACM COMMITMENTS, ALL OTHER MEMBER COUNTRIES, INCLUDING COSTA RICA, HAVE BEEN GUILTY OF SUCH VIOLATIONS. THIS IS SO BECAUSE THE MECHANISM ORIGINALLY ESTABLISHED TO REVIEW AND APPROVE MEMBER'S PLANS TO REVISE TAXES OR DUTIES, I.E. THE ECONOMIC COUNCIL, HAS BEEN UNABLE TO MEET SINCE THE EL SALVADOR/ HONDURAS WAR.

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4. IN STRESSING THE LEGAL SIDE OF THE CURRENT "MINI-CRISIS" BERROCAL DID NOT DOWNPLAY THE ECONOMIC IMPACT WHICH THE SALVADORAN AND NICARAGUAN MEASURES WILL PROBABLY HAVE ON COSTA RICA. HE STATED THAT UP UNTIL NOW COSTA RICA HAS MADE CONSIDERABLE PROGRESS IN LOWERING ITS INTRA-REGIONAL TRADE DEFICIT. IT IS BELIEVED THAT THESE NEW MEASURES WILL ADVERSELY AFFECT THAT TREND.

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